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SUBJECT: PUTIN WAXES ELOQUENT ON SOCIO-ECONOMIC ISSUES

Classified By: Deputy Chief of Mission Eric Rubin, Reasons, 1.4 (b) and (d)

11. (SBU) In his annual live Q&A session with the nation, Prime Minister Putin spent longer on economic and socio-economic issues (65 minutes) than on any other topic. He praised the government,s efficiency during the crisis, comparing it favorably with the 1998 crisis. He echoed President Medvedev,s claim, made in the November 12 poslanyie, that the worst of the crisis was over, noting that the government managed to stabilize the situation in most industries through direct interventions. He reported that the 2009 GDP decline will be 8.5-8.7%, compared to earlier forecasts of a 10% GDP decline, and positive growth rates were anticipated for 2010. Industrial production declined by 13 %, but some sectors were now demonstrating growth ) especially those supported by the state. (Note: Unlike Medvedev, who condemned state corporations as inefficient , Putin described them as &neither good or bad ) but in many cases necessary.8 End note.) For example, Putin reported that growth in the state-supported defense industrial sector will be about 3.7 % and the space industry will grow by 13%.

12. (SBU) In other areas, Putin stated that Russia,s agricultural sector was expected to grow by 05.%. On the macroeconomic front, he claimed Russia,s gold and foreign exchange reserves were growing; inflation will fall below 9% (the biggest drop in a decade); and the trade balance (with rising oil and gas revenues) will remain positive. Putin gave credit to the GOR for managing to stabilize the situation in the banking sector and maintaining people,s confidence in both the ruble and Russia,s banks.

#### Growth in Social Supports

13. (SBU) Putin stated the decline in the social sphere had not been as devastating as it was in 1998. While real wages will decline by 3.6 % this year, salaries of employees paid out of federal budget will increase by 4.1%. Real pensions will grow by 13%-14% in 2009. He promised that pension payments will grow by 46% next year and that the minimum pension will not be lower than the subsistence minimum. Overall, Putin reported that real disposable incomes (supported by the government,s social programs) would remain at basically 2008 levels. He concluded that people,s confidence in the future ) as evidenced by a 3 % increase in birth rates and fall in mortality ) would stimulate domestic demand and drive economic recovery.

#### Putin,s Success Stories

14. (C) The major portion of Putin,s remarks were focused on his personal interventions as prime Minister during the course of the year, with direct video links to companies and

cities where he was directly involved in relief or restructuring programs. These included his forced restructuring of Pikalyovo, the government's bailout of Avtovaz and the reconstruction of the Sayanko-Shushenskaya hydroelectric plant. Putin described at length the government's bailout measures, such as enormous government orders and large tranches of subsidies. In nearly every case, the call-ins were staged in key industrial sites which Putin had visited previously and where he had personally addressed some of the outstanding issues from the economic crisis. After thanking Putin for his actions, participants then proceeded to request further interventions as, in nearly every case, the underlying problems remained unaddressed. Putin did note that some of these towns need to look beyond their current activities in order to develop a more diversified economic base. In an interesting (though not unexpected) development, the long-standing, unresolved agreements for the continuation of industrial activities in one of these towns--Pikalyovo--were completed on the morning of the broadcast, after months of unsuccessful negotiations. According to specialized press reports, however, the "agreement" does not address one of the central issues, which is that the facilities cannot turn a profit by selling at the prices indicated in the agreements.

¶5. (C) There were numerous questions on sensitive social issues for which the government did not have an easy remedy (i.e., housing for veterans and the quality of health care). In most cases, Putin tended to shift responsibility away from the federal government to the regional governments. As press and other analysts note, most of the questions were not about the underlying problems of the Russian economy, but

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rather about concrete, practical problems effecting peoples lives--deteriorating schools, closed health clinics, uncertainty about jobs. Analysts see this as a reflection of people's hope for Putin's help in solving their immediate problems. Regional mechanisms have not been effective in solving these issues--only an appeal to the top will work. Given that approximately 80% of municipal budget revenues represent transfers from higher levels (including the federal budget), federal level action will, in fact, be needed to address these issues.

WTO and Customs union

¶6. (C) WTO: In response to a question posed by the program announcer (not by a member of the public), Putin bashed the U.S. for the continuation of Jackson-Vanik. Calling the amendment outdated, Putin stated that various U.S. Congressional lobby groups continue using it to promote the narrow interests of their sectors, for example linking the amendment to trade in meat products. Putin also stated that WTO accession remains a Russian strategic goal, but that some countries, including the U.S., continue to block Russia's accession. In his discussion of agriculture, Putin also criticized the WTO process as requesting that Russia reduce its support for agriculture--something he claimed that Russia would not do. Putin's statement that the U.S. is responsible for the fact that Russia has not completed its WTO accession process is, unfortunately, reflective of a widespread belief among the Russian public, due in large part to Putin's statements, which are then repeated by Putin loyalists within the GOR. Those individuals who work directly with the WTO accession process, both in government and industry, are well aware that Russia is responsible for its own accession, but few of them are willing to speak out to counteract this inaccurate information, promulgated at the highest level.

¶7. (C) Customs Union: Putin stated that Russia's top priority is now integration on the territory of the former Soviet Union, through the Russia, Belarus, Kazakhstan Customs Union. Russia, he said, will consider WTO accession either as a Customs Union or separately, but in a process which

closely coordinates Russia's positions with those of other Customs Union officials. Putin's remarks directly contradict statements by President Medvedev and others that Russia remains interested in WTO accession and is prepared to move forward in the most expeditious manner, while still working with its Customs Union partners. This difference in position is reflected throughout the GOR, where officials in different ministries (and even different officials in the same ministry) continue to make contradictory statements about Russia's WTO intentions.

#### Other Issues

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18. (C) On other themes, the overall opinion of economic analysts was that Putin's speech was aimed mostly at consolidating political support (for himself and the GOR), but offered no significant economic initiatives or post-crisis strategies. Putin clearly gave the impression that the government had adequate ) if not massive ) economic resources at its disposal and was prepared to use them for putting out economic fires as they arise (i.e., Pikalyovo).  
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